

## **Function 570: Medicare**

Function 570 includes only the Medicare program. Discretionary funds (subject to annual appropriations) in Function 570 are used to monitor and administer the Medicare program. Medicare benefits comprise almost all of the mandatory spending in Function 570.

### **Administrative Funds Frozen**

For 2001 administrative costs, the conference agreement on the Republican budget resolution provides \$3.1 billion, the same as the House resolution. This level is identical to the 2000 level. Like the House resolution, the conference agreement freezes these funds at this level for five years (2001-2005). For 2001, this represents a 2.4 percent cut in purchasing power; by 2005, a 14.9 percent cut.

Under the Democratic alternative resolution, administrative activities were funded at a level sufficient to maintain the current level of services.

- ***Effect of Cutting Funds to Prevent Fraud, Waste, and Abuse*** — Medicare's administrative funds are part of a pool of funds used by the Health Care and Financing Administration (HCFA) to prevent and detect fraud, waste, and abuse in the Medicare program. Although significant improvements were made in reducing Medicare's improper payment rate between 1996 and 1998 (a 45 percent reduction), the amount of errors is still too high (about \$13 billion annually). Although not statistically significant, the level of improper payment rates rose slightly in 1999 over the 1998 rate. A cut in funds will not permit stepped up anti-fraud, waste, and abuse activities. It is ironic that Republicans have stepped up calls for elimination of waste, fraud, and abuse at the same time they reduce the pool of funds needed to do so.

### **Two Reserve Funds for Medicare**

Unlike the Democratic alternative, which provided an immediate Medicare prescription drug benefit for all seniors, the conference agreement increases Medicare spending by \$40 billion over five years (2001-2005) relative to projections of current law by creating two reserve funds for Medicare.

The conference agreement creates a House reserve fund and a Senate reserve fund for prescription drug benefits and other Medicare legislation. The conference agreement does not require either body to report any legislation at all.

- ***The House Medicare Reserve Fund*** — The House Medicare reserve fund follows the House resolution. It increases Medicare spending by \$2.0 billion for 2001 and \$40 billion over five years (2001-2005) relative to projections of current law. The House reserve fund provides for an undefined Medicare reform plan and an undefined prescription drug benefit.
- ***The Senate Medicare Reserve Fund*** — The Senate Medicare reserve fund also increases Medicare spending by \$40 billion over five years (2001-2005) relative to projections of current law. The reserve is divided into two equal parts and the allocation of the \$40 billion must not cause an on-budget deficit in any fiscal year.

For further discussion of the prescription drug benefit and the Medicare reserves, see *Medicare Prescription Drugs*.